

## Message Text

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PAGE 01 CAIRO 15771 230927Z

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 PA-01 PRS-01 EUR-12 /093 W

-----102867 230929Z /11

P 221537Z SEP 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 9718

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EO 11652: NA

TAGS: EFIN, EG

SUBJ: GOE DEBT

1. MIDEAST ECONOMIC NEWS WEEKLY SEP 17 ISSUED COMPREHENSIVE COMMENTARY ON EGYPT'S DEBT SITUATION, NOTING THAT GOE HAS SUCCEEDED IN RETIRING LE 711 MILLION OF SHORT TERM DEBT SINCE JAN 1, 77. ARTICLE TIES REPAYMENT OF LARGE AMOUNT OF SHORT TERM OBLIGATIONS TO RECEIPT OF FIRST TRANCHE AMOUNTING TO \$675 MILLION OF GODE LOAN FUNDS. WEEKLY COMMENTARY THAT ADDITIONAL CONVERTIBLE ASSETS COME FROM GOE RESOURCES, PLUS CHASE MANHATTAN LOAN OF \$250 MILLION GUARANTEED BY GODE. ARTICLE HERALDS THIS AS FIRST TIME IN YEARS THAT EGYPT HAS BEEN IN POSITION TO MEET ALL ITS FINANCIAL COMMITMENTS, AND STRESSES THAT EGYPT'S RELATIONS WITH ALL CREDITOR NATIONS HAVE IMPROVED.

2. IN BRIEF OVERVIEW OF EGYPTIAN DEBT PICTURE, PUBLICATION ESTIMATES GOE INCURRED LE 2.8 BILLION OF SHORT TERM DEBT IN FOUR YEAR PERIOD BETWEEN 1973 AND 1977 (PRESUMABLY THROUGH END OF 76). TERMS ON THESE BORROWINGS AVERAGED BETWEEN 15 AND 18 PERCENT INTEREST FOR 180-DAY TERM. RATIONALE FOR HEAVY BORROWING CORRELATED WITH EGYPT'S DEPENDENCE ON FOOD IMPORTS, LIMITED OFFICIAL USE

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PAGE 02 CAIRO 15771 230927Z

PARTICULARLY WHEAT; GOE MUST PURCHASE 66 PERCENT OF WHEAT REQUIREMENTS ABROAD, ACCORDING ARTICLE. DURING FOUR YEAR PERIOD, PRICE OF WHEAT ROSE FROM \$70 TON TO \$255 TON AND EGYPT IMPORTED 3-4 MILLION TONS ANNUALLY DURING THIS TIME. MOREOVER, INTERNATIONAL PETROLEUM CRISIS, WHICH CREATED DOUBLE DIGIT WORLD WIDE INFLATION, CAUSED GOE'S ALREADY MASSIVE IMPORT BILL TO DOUBLE BETWEEN 1973-74 AND RISE ANOTHER 30 PERCENT

DURING 74-75. IMPORTS ONLY STARTED TO LEVEL OFF IN 1976,  
ACCORDING MEN REPORT.

3. DESPITE HEAVEY DEBT BURDEN, PUBLICATION NOTES GOE ACTION,  
TAKEN IN COOPERATION WITH IMF, IBRD, WESTERN AND ARAB DONORS,  
HAS ELIMINATED POSSIBILITY OF HARD CURRENCY CRISIS FOR THIS  
YEAR. RETIREMENT OF OUTSTANDING SHORT TERM DEBT AND CON-  
VERSION OF LARGE PORTION OF THIS DEBT TO MEDIUM TERM OBL-  
IGATIONS HAS GIVEN EGYPT TIME TO RE ORDER ITS FINANCIAL  
PRIORITIES. ARTLICE ALSO NOTES THAT DESPITE IMPROVED PICTURE  
ON SHORT TERM OBLIGATIONS, MEDIUM AND LONG TERM DEBT THROUGH  
MARCH 77 TOTALLED \$12 BILLION. ABOUT A THIRD OF THIS TOTAL WAS  
CREDITS FROM WESTERN DONORS, INCLUDING US, ANOTHER THIRD  
FROM EAST BLOC COUNTRIES, AND A FINAL THIRD FROM ARAB PET-  
ROLEUM EXPORTING COUNTRIES. ACCORDING TO SOURCE, THIS  
FIGURE ALSO INCLUDES GOE MILITARY OBLIGATIONS.

4. OF THE EASTERN BLOC DEBT, ARTICLE CLAIMS \$1 BILLION WAS  
INCURRED DURING 1958-71 PERIOD IN LOANS FROM SOVIET UNION.  
MAJOR OF THESE MONIES WENT TO BUILD AWAN HIGH AM AND CONSTRUCT  
SEVERAL IRON, STEEL AND ALUMINUM PLANTS. ACCORDING SOURCE,  
GOE HAS REPIAID \$350 MILLION ON THIS DEBT AS SCHEDULED AND IS  
ASKING USSR TO RESCHEDULE REMAINDER. TO DATE, SOVS HAVE BEEN  
COMPLETELY UNCOOPERATIVE ON ISSUE OF RESCHEDULING GOE'S  
HARD CURRENCY DEBT AND ARE NOT EXPTED TO MODIFY PRESENT  
POSITION ON THIS ISSUE. ARTICLE OFFEERS NO BREADKOWN OF  
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PAGE 03 CAIRO 15771 230927Z

\$3 BILLION REMAINING BLOC DEBT.

5. ASSISTANCE INFLOWS FROM WESTERN DONORS SINCE 1973 ARE  
SUMMARIZED AS FOLLOWS: US \$2,500 MILLION, FRG \$400 MILLION,  
JAPAN \$300 MILLION, FRANCE \$150 MILLION, UK \$20 MILLION  
TOTAL \$3,370 MILLION  
PRESS POINTED OUT THAT MAJORITY OF WESTERN ASSISTANCE HAD  
BEEN ON FAVORABLY TERMS AND DOES NOT REPRESENT IMMEDIATE  
BURDEN ON GOE.

6. IN CONJUNCTION WITH ARTICLE, MEN INTERVIEWED GMAL AL  
NAZER, FIRST UNDERSEC OF MINECON AND DEP CHAIRMAN OF THE  
INVESTMENT AUTHORITY. EL NAZER'S ASSESSMENT OF ECONOMY  
AND WENT ON TO NOTE THAT GOE IS SUCCESSFULLY CONTROLLING  
IMPORT EXPANSION AS WELL AS SETTLING SHORT TERM DEBT ACCOUNTS.  
DESPITE THIS LIMITED SUCCESS, HOWEVER, ZAHAWY ALSO NOTED  
THAT FOREIGN EXCHANGE NEEDS STILL CONTINUE TO RISE AND  
CONTINUED IMPORTS OF CAPITAL GOODS AND INTERMEDIATE COMM-  
ODITIES ARE VITAL TO PLANNED ECONOMIC EXPANSION. GIVEN GOE NEEDS  
AND RECENT IMPROVEMENT IN GOE'S REPAYMENT PERFORMANCE,  
EGYPT MAY BE MOVING TO POSITION WHERE MORE ADVANTEGEOUS  
TERMS COULD BE OBTAINED ON FOREIGN EXCHANGE BORROWINGS.

8. COMMENT: FIGURES ARE INTERESTING IF ONLY TO NOTE THEY  
TRACK REASONABLY WELL WITH KAISOUMI'S FIGURES IN TERMS OF  
MILITARY AND CIVILIAN DEBT, REPORTED EARLIER. PUBLIC SOURCE CITES  
\$12 BILLION FIGURE AS TOTAL OF OUTSTANDING GOE DEBT. ADDITIONALLY,  
ARTICLE  
CLEARLY SUGGESTS SIZEABLE AMOUNT OF EASTERN EUROPEAN DEBT, INCLUDING  
SOV, STILL REQUIRES REPAYMENT.  
MATTHEWS

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## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Remarks:**  
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**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Original Previous Classification:** n/a  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009